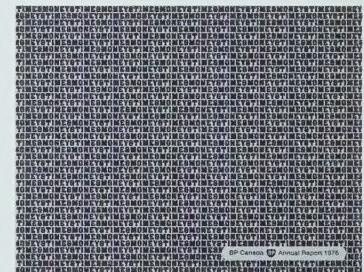


MONEY AND TIME are the key elements in improving the level of Canada's energy self-reliance. By the early 1980's, Canada's oil production will probably fall short of meeting even the needs of those regions of Canada traditionally supplied with domestic oil. The extent of that shortfall hinges on the *amounts of money* devoted to finding and developing new energy reserves and the *speed* with which they can be brought to the consumer.

MONEY: Despite some recent measures to improve producers' netbacks, government policies have severely weakened the industry's ability to generate the huge sums required, much of which must come from its past investments. The industry's liquidity can only be restored through higher prices and/or reductions in royalties and taxes.

TIME: The problem is urgent. Long lead times demand immediate action if Canada is to avoid serious shortages of energy within a decade.



The Annual and General Meeting of shareholders of BP Canada Limited will be held at 11 a.m. Friday, April 22, 1977 in the Ritz-Carlton Hotel, Montreal.

Pour une copie de ce rapport annuel en français, veuillez écrire au:
Service des Affaires publiques
BP Canada
1245 ouest, rue Sherbrooke
Montréal, Québec H3G 1G7

Highlights for the year 1976

with 1975 figures shown
on a comparable basis

1976 1975 % change

(Thousands of dollars unless otherwise stated)

Financial

Revenue—sales and services	\$625,967	\$550,465	+ 13.7
Net revenue	560,062	493,149	+ 13.6
Total funds derived from operations	64,795	65,060	- 0.4
Net income for the year	32,112	30,480	+ 5.4
Net income per share (dollars)	1.53	1.45	+ 5.4
Return on average capital employed(%)	8.17	8.41	- 2.9
Working capital at end of year	105,018	110,386	- 4.9
Expenditures on property, plant, equipment and research costs	68,914	60,264	+ 14.4
Long term debt at end of year	78,449	84,879	- 7.6
Shareholders' equity at end of year	333,096	309,824	+ 7.5
Total assets at end of year	580,200	552,500	+ 5.0

Operating

	(Barrels per day)	
Refined product sales	105,529	104,310
Crude oil processed at refineries	128,246	121,693
Gross sales of crude oil and natural gas liquids	21,349	22,827

	(Thousands of cubic feet per day)	
Gross sales of natural gas	104,926	100,945

Share price range

The Company's capital stock is listed for trading on the Montreal, Toronto and Vancouver exchanges. The high and low market prices for the common and preferred shares of the Company on the Toronto Stock Exchange for the last two years are shown in the table.

Common shares	1976		1975	
	\$/share		\$/share	
High	Low	High	Low	
First quarter	11 1/8	9 1/8	12	8 3/8
Second quarter	10 1/8	9 1/8	14	11 1/8
Third quarter	9 1/8	8 1/8	14 1/8	11
Fourth quarter	9 1/8	7	11 1/8	9 1/8
Yearly	11 1/8	7	14 1/8	8 1/8

**5% Cumulative redeemable
sinking fund preferred shares**

First quarter	63	50	63	59
Second quarter	61	59 1/2	60	60
Third quarter	59 1/2	59	63	63
Fourth quarter	60 1/2	59 1/2	63	63
Yearly	63	50	63	59

The performance of the Canadian economy in 1976 was generally disappointing and this was reflected in a slow rate of growth in the demand for petroleum products during the first three quarters, although exceptionally cold weather in the final quarter sharply boosted the consumption of heating oils. Prices of all products rose in the Fall in response to the crude oil price increase of \$1.05 per barrel authorised by the Federal Government on July 1. Unfortunately, the combination of the 60-day delay imposed by the Government on the pass-through of this price increase to the products market and the intense competition which characterised the market in 1976 prevented the full recovery of rapidly increasing costs. Net income in the marketing and refining sector fell by 46 per cent. In Quebec, margins declined almost to vanishing point.

The fact that, overall, we were able to show a modest gain in net income of 5.4 per cent was entirely due to the substantial improvement in earnings obtained from sales of natural gas. In this connection, it will be recalled that in the middle of the year we made an offer to purchase the 65 per cent of the shares of British Columbia Oil Lands Limited which we did not then own. This bid was successful and B.C. Oil Lands, most of whose actual and potential revenue is derived from gas, is now a wholly-owned subsidiary of your Company and, in the last few months of 1976, contributed some \$375,000 to net income.

In view of the deplorable return being obtained from marketing and refining operations, your Company is limiting capital expenditure in these sectors to that necessary to maintain our competitive position and to comply with environmental and safety standards. Since 1972, the number of retail outlets selling BP's brands in Quebec and Ontario has been

reduced from over 3000 to less than 1800 with a marked improvement in the average throughput per station. This rationalisation program is now virtually complete; the principal activity this year being to finish equipping the retail network to market BP No-Lead gasoline.

In Western Canada, we continue to be much encouraged by the results of our step-out gas wells in the Monkman area of northeastern British Columbia. With the recent commitment of the British Columbia Petroleum Corporation to construct a gas plant and connection to the Westcoast Transmission pipeline system, this area should be making a substantial addition to net income by 1980.

Early in 1977, we signed an agreement under which the Alberta Oil Sands Technology and Research Authority will contribute some \$9 million, representing half the estimated net cost, towards an experimental pilot project designed to test the feasibility of a new concept, involving sequential steam heating and fire flooding, for producing heavy crude oil from the Company's extensive leases in the Cold Lake area of Alberta. In this project we have also been joined by Hudson's Bay Oil and Gas and PanCanadian Petroleum who will contribute 17½ per cent and 12½ per cent, respectively, of the net cost of the project and will thereby earn the right to purchase similar percentage interests in our leases on completion of the experiment, anticipated for the mid-1980's. The total cost of the project will be about \$30 million, but against this the recovered oil is expected to generate some \$12 million of sales revenue.

Early in January, your Company, jointly with BP Canadian Holdings, a wholly-owned subsidiary of the parent company, The British Petroleum Company Limited, agreed, subject to necessary governmental

approvals, to purchase from Brameda Resources and Teck Corporation their interest in certain coal leases in the Sukunka area of northeastern British Columbia. This acquisition, which it is hoped will be completed by midyear, is the first step in developing a \$400 million mining operation designed to produce 3 million tons per annum of high-quality coking coal. If all goes well, coal production should be running at the rate of half a million tons per annum in 1980.

These three resource projects, natural gas and coal in British Columbia and heavy oil in Alberta, well illustrate the theme of this year's Report — that to bring new energy supplies to the consumer requires both massive sums of money and long lead times. We discovered gas in the Monkman area in 1965 — 15 years before the first gas will flow to market. Similarly, we have already been engaged in research to unlock the heavy oil contained in our Cold Lake acreage for well over 10 years. Some 7 years will pass and over \$400 million will be spent before the coal mine will reach full productive capacity in 1984.

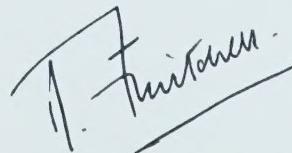
It was with great sadness that we learned over the Christmas holidays of the death of our Director, Mr. Ian N. McKinnon, who, after a long and distinguished career in the service of the Governments of Alberta and Canada, had since 1970 been a much-valued counsellor. In January of this year we were pleased to welcome Mr. Charles Perrault of Montreal to fill the vacancy on our Board.

Under our rules, our Directors are ineligible for re-election after reaching the age of 70. Regrettably, both Mr. R.M. Fowler and Mr. J. Allyn Taylor, having passed this milestone by the time of our Annual and General Meeting in April will, as a consequence, not be standing for

re-election. Mr. Fowler was elected a Director of a predecessor of BP Canada in 1967 and since 1969, as Chairman of the Board, has played a major role in guiding your Company's fortunes. Mr. Taylor was a Director of Supertest Petroleum Corporation, with which BP merged in 1971, and since then has been a most active and valuable member of our Board. Both these gentlemen will be sorely missed.

It is proposed to fill the vacancies on the Board by Mr. Peter N.T. Widdrington, President of John Labatt Limited, whose agreement to serve your Company we are most fortunate to have obtained, and by Mr. Donald C. Smith, who, since 1970, has been our chief financial officer and, as such, is no stranger to the deliberations of the Board.

The true worth of BP Canada lies in its 3000 employees, without whose steady commitment to the interests of your Company, nothing would have been achieved. I salute a fine group of men and women who still believe in giving of their best and enjoy the satisfaction of a job well done.



D.F. Mitchell
President
March 15, 1977

Exploration & Production

INVESTMENT

During 1976 the Company spent \$22 million on exploration for oil, gas and minerals (including \$4.6 million contributed by another company to earn an interest from BP in the Labrador Shelf acreage); \$10 million on the acquisition of proven and semi-proven reserves; \$12 million on development drilling and \$4 million on production equipment. Over the past five years, such expenditures have amounted to \$134 million, including \$30 million contributed by others to earn interests in BP's Labrador Shelf acreage.

Bullmoose Mountain in northeastern British Columbia forms the backdrop for the 1976 gas discovery well BP Sukunka b-19-A. Successful production testing has greatly improved the Company's prospects in the area (see map on facing page).

Production and Sales

Canada's production of crude oil and natural gas liquids fell again in 1976 as a result of the restrictions on exports imposed by the Federal Government and the difficulty of marketing heavy Saskatchewan production. The Company's production of crude oil averaged 21,349 barrels per day, 6.5 per cent less than in 1975.

Natural gas sales averaged 104.9 million cubic feet per day during 1976, compared with 100.9 million cubic feet per day in 1975. This increase reflects the inclusion from September 1, 1976, of gas sales from the properties in which British Columbia Oil Lands Ltd. holds interests. Production of gas from the Edson field in Alberta was restricted for three months of the year during the installation of additional inlet compression capacity and completion of repairs to the processing plant. By November, production had recovered to the 1975 level.

For many years the Company has had an approximately 35 per cent interest in British Columbia Oil Lands Ltd. During 1976, the Company made an offer for and acquired all the remaining shares of B.C. Oil Lands for approximately \$12.5 million. As a result, BP now owns valuable carried interests in the Yoyo, Kotcho, Cabin and Louise gas fields of northeastern British Columbia. These lands produced for the account of B.C. Oil Lands an average of 27.1 million cubic feet per day during the last four months of 1976 and will continue to generate important revenues for the Company. Furthermore, the credits earned on the sale of gas under the British Columbia exploration incentives scheme are available to help finance the Company's substantial exploration programme in British Columbia. In addition to those gas producing properties, B.C. Oil Lands holds a small working interest in oil production from the Mitsue Gilwood

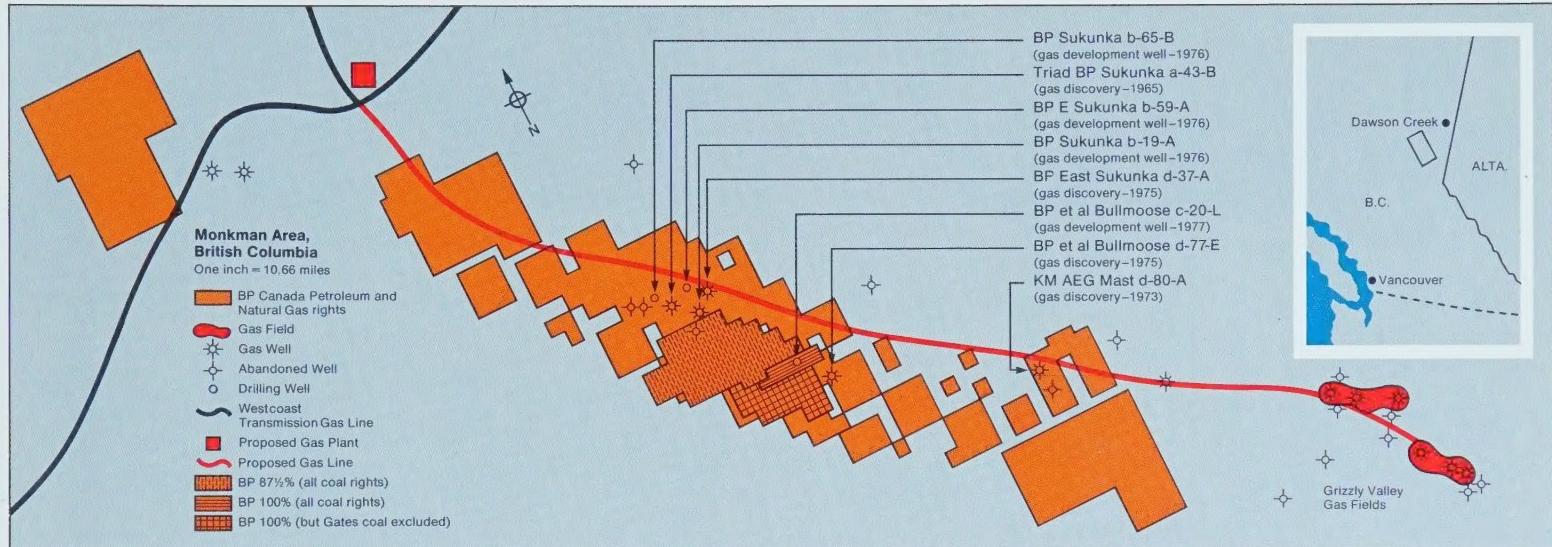


Sand Unit No. 1 in Alberta.

Sales of sulphur were 10 per cent lower than in 1975, averaging 197 tons per day. World markets continued to deteriorate with the average price received by the Company dropping from \$22.75 to \$14.59 per long ton.

Western Canada Basin

The main thrust of the year's activity was in the rugged terrain of the Monkman area, in northeastern British Columbia, where the Company has an excellent land spread with interests ranging from 25 to 64 per cent in 204,000 acres and 100 per cent in 94,000 acres. Gas has been discovered in three separate structures; one of these discoveries has been confirmed by successful step-out development drilling. From production tests conducted in the four completed wells, deliverability has been established at about 122 million cubic feet per day. In early 1977, three drilling rigs were under contract for development drilling — one on each of the structures. The first of these wells entered the gas-bearing zone and, on initial test, produced gas at high rates. The table of proven reserves in this report includes a total of 115 billion cubic feet of reserves in the areas limited to the spacing units immediately surrounding the four wells completed and tested to date. However, it seems likely that the Company's share of recoverable gas within the total area of the three structures may well be as high as 533 billion cubic feet. Geological and geophysical evidence also indicates the presence of other structures within the present land holdings that have not yet been tested by drilling. The British Columbia Petroleum Corporation has announced plans for the installation of pipeline and plant facilities to bring these important new gas reserves to market in 1980.



In the Peace River area of northwestern Alberta, gas discoveries were made at Mulligan 6-29-81-7-W6 (BP 25 per cent), Peoria 7-29-77-2-W6 (BP 50 per cent) and Pouce Coupé 7-8-80-12-W6 (BP 18.8 per cent). Two gas development wells were successfully completed.

At Stolberg, in the central foothills of Alberta, no further development drilling was carried out in 1976. The operator has proposed some exploratory drilling in 1977. Plans are being finalized for the processing of gas from this field. Drilling by other companies has established additional gas reserves in the area.

In the shallow gas area of southeastern Alberta, 82 gas development wells were drilled at Tide Lake and Monogram, where BP has 16.5 per cent and 33.5 per cent interests, respectively. Eight exploratory wells were drilled, in which BP's interest ranges from 17.5 to 100 per cent. These resulted in four gas discoveries.

Frontier Areas

The Company's frontier exploration programme was on a modest scale, largely due to the continuing uncertainties surrounding federal land regulations and unresolved disputes over jurisdiction.

On the Labrador Shelf, the BP Columbia et al Indian Harbour well, which was suspended at 7,753 feet in 1975, was drilled to a total depth of 12,986 feet. Unfortunately, no hydrocarbons were encountered in this well, which cost over \$13.7 million. During the year, 790,000 acres were surrendered thereby reducing the Company's gross holdings to 13.1 million acres. Under a farmout made in 1976, Petro-Canada undertook to spend \$13 million to earn a 15 per cent interest in the Company's holdings on the Labrador Shelf, which will reduce BP's interest to

45 percent; to date, Petro-Canada has spent \$4.6 million.

In Cumberland Sound, off Baffin Island, a 400 mile seismic programme was completed on a 1.1 million acre block in which the Company holds a 50 per cent interest.

In the Arctic Islands, BP's exploration continued at a level similar to that of recent years. The Key Point well on Vanier Island was drilled to 11,425 feet and abandoned. Under a farmout agreement with Panarctic, BP's share of the cost of this well was 8 2/3 per cent and the Company's interest in the acreage was reduced from 31 1/3 to 20 per cent.

On Cameron Island, where BP has a 3 1/3 per cent interest, a one mile step-out to the Bent Horn oil discovery was completed as an oil well with high production rates and a second development well was being evaluated in early 1977. Two exploratory wells were abandoned without successful results. The costs of the Cameron Island wells are being borne by Panarctic with the right to recover BP's share of the cost from future production. The Company granted seismic options to Panarctic on eastern Vanier and on Emerald Islands, under which it can earn a 50 per cent share of BP's 31 1/3 per cent interest by drilling an exploratory well in each block.

With the full acquisition of B.C. Oil Lands, BP's interest in the Arctic Islands has been increased. The Company now holds a 3.15 per cent interest in portions of the Hecla, Drake Point and King Christian gas fields.

Magnorth Petroleum, in which BP has a 38.9 per cent equity interest, reduced its Arctic Islands offshore holdings by 9.8 million acres to 4.3 million acres. Most of the acreage remaining is in the Lancaster Sound area, where approximately \$1 million was spent on environmental work required prior to drilling.

Reserves

(Gross Before Royalty)

Proven Reserves at December 31, 1975

Add:

Acquisition of British Columbia
Oil Lands Limited
Discoveries and extensions
Net revisions to existing reserves

Production during 1976

Proven Reserves at December 31, 1976

Location of Reserves by Province:

Alberta	73,945,500	724,697
Saskatchewan	15,716,600	2,298
British Columbia	2,019,100	245,128
	91,681,200	972,123

Gross Quantities Sold – Crude Oil and Natural Gas Liquids

	1976 Barrels per Day	1975 Barrels per Day
Alberta		
Redwater	2,838	3,293
Pembina	2,372	2,526
Chauvin	2,282	2,401
Swan Hills	1,743	2,057
Kaybob South	1,619	1,515
South Sturgeon	1,473	1,559
Inverness	502	597
Others	3,394	3,594
Total Alberta	16,223	17,542
British Columbia		
Beaton River	808	853
Others	33	43
Total British Columbia	841	896
Saskatchewan		
Dollard	952	954
Weyburn	521	497
Kenosee	514	584
Steelman	484	541
Others	1,814	1,813
Total Saskatchewan	4,285	4,389
Total All Areas	21,349	22,827

Gross Sales – Natural Gas

	1976 Million Cubic Feet per Day	1975 Million Cubic Feet per Day
Alberta		
Edson	37.6	40.9
Craigend	6.6	8.8
Monogram Unit	5.4	2.5
Pembina	4.6	5.0
Sullivan Lake	3.6	4.2
East Calgary	3.2	3.7
Cessford	2.9	4.0
Harmattan Elkton	2.5	1.6
Others	27.0	27.8
Total Alberta	93.4	98.5
Other Provinces		
Yoyo – Kotcho – Cabin – Louise	9.0	—
Others	2.5	2.4
Total other provinces	11.5	2.4
Total All Areas	104.9	100.9

Summary of Drilling

	Oil	Gas	Dry	Other
Exploratory wells				
Working interest	3	9	22	4
Farmout (interest retained)	1	4	4	—
Wells adjacent to lands optioned (no direct interest)	1	1	—	—
Development wells				
Working interest	10	117	14	5
Farmout (interest retained)	4	2	5	—

Land Summary

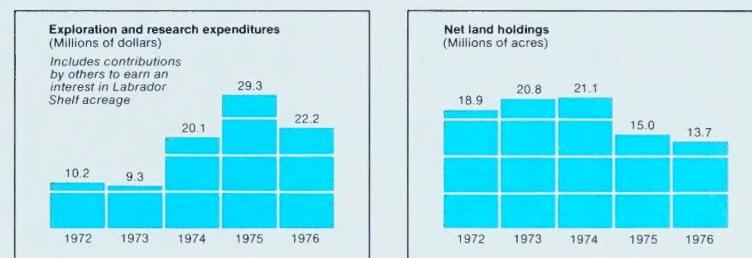
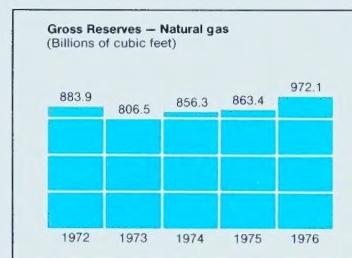
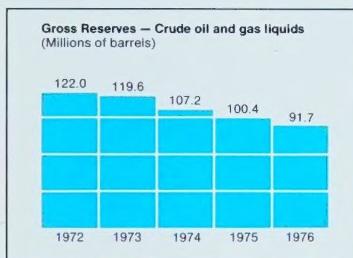
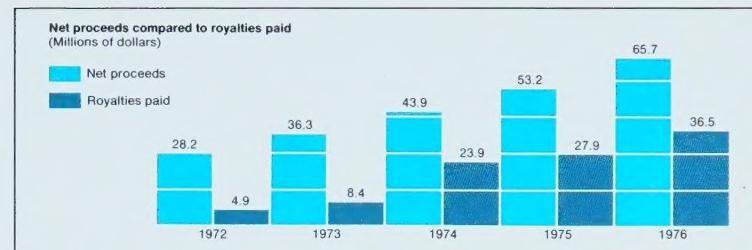
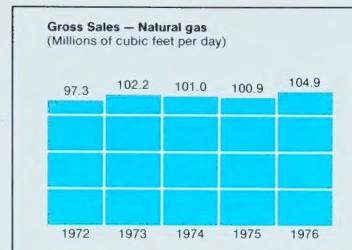
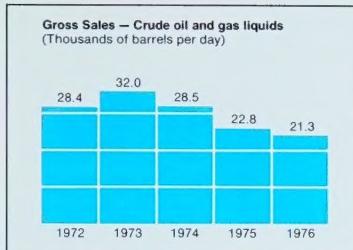
	December 31, 1976 Gross (acres)	December 31, 1975 Net (acres)
Leases		
Arctic Islands	105,362	3,533
Alberta	1,905,250	1,135,848
British Columbia	325,918	232,693
Saskatchewan	124,969	58,462
Ontario	25,995	11,001
Northwest Territories	253,472	64,924
	2,740,966	1,506,461
Reservations & Permits		
Alberta	2,274,314	1,033,238
British Columbia	1,119,410	437,917
Northwest Territories	2,304,791	691,567
Arctic Islands	7,244,792	1,027,066
East Coast	14,156,312	8,418,661
North Sea – Great Britain	51,323	5,774
	27,150,942	11,614,223

Major Options

Alberta	—	—	9,920	2,480
British Columbia	45,540	11,385	67,343	15,702
	45,540	11,385	77,263	18,182

Total Petroleum & Natural Gas Acreage

Coal Acreage	29,937,448	13,132,069	30,672,994	13,436,887
Mineral Acreage	145,133	91,696	145,133	91,696
	647,559	443,198	1,436,500	1,434,950



Non-Conventional Oil

Work has started on an experimental pilot project at the Cold Lake heavy oil deposits in Alberta, where BP has a 100 per cent interest in 75,000 acres of oil sands leases. The gross cost of the project, which is expected to be in operation early in 1978 and to extend over a number of years, is estimated at \$30 million. The estimated net cost, after anticipated sale of production, is \$18.4 million, 50 per cent of which will be borne by the Alberta Oil Sands Technology and Research Authority. AOSTRA will thereby earn the right to a half share in any revenue derived from the sale of the resulting technology but will not earn an interest in the acreage itself. Hudson's Bay Oil and Gas Company Limited and PanCanadian Petroleum Limited have agreed to pay 17½ per cent and 12½ per cent respectively of the net cost for access to the technology and the right to purchase the same interests in the leases at the conclusion of this initial pilot project.

Coal

Coal exploration in Alberta was at a low level during 1976 on account of the newly announced provincial policy which severely limited the areas open for development. The Company has, however, filed on an additional 25,160 acres in a potential development area.

Early in 1977, BP Canada and BP Canadian Holdings (a wholly-owned subsidiary of The British Petroleum Company Limited) agreed to acquire from Brameda Resources Limited an 87½ per cent interest in 27,000 acres of coal licences at Sukunka in northeastern British Columbia. They also agreed to purchase from Brameda and from Teck Corporation Limited, a 100 per cent interest in 13,900 acres of coal

licences at nearby Bullmoose. It is hoped to obtain the necessary government approval and complete this purchase by mid year.

These properties, when fully developed, are thought to be capable of producing high-quality coking coal at a rate of 3 million tons per year. Full development is expected to cost about \$400 million, and will necessitate the provision of new transportation facilities to, and port facilities at, Prince Rupert. Pending the completion of these facilities by governments, it is the intention to commence producing coal in 1979 at a lesser rate, using existing facilities.

Minerals

Mineral exploration for base metals and uranium continued at the same level as in recent years. Base metal exploration was undertaken in the Yukon and British Columbia, with the main effort focused on the Toodoggone and Salal projects in British Columbia. At Toodoggone, geological mapping and geophysical surveying continued and six core holes were drilled, which indicated promising areas for further investigation.

BP carried out uranium exploration in the Northwest Territories, Alberta, Ontario, British Columbia and Newfoundland, with the greatest concentration being near Great Bear Lake, N.W.T., where the Company holds a 50 per cent interest in 403,000 acres and 100 per cent interest in 172,000 acres of mineral rights. The Company staked 108,000 of these acres on the basis of the 1976 field programme and further field work is planned during 1977. In northeastern Alberta, BP obtained a 29,000 acre permit in the western extension of the Athabasca sandstone basin.

Supply & Refining

INVESTMENT

BP's capital investment in new refining and petrochemical facilities amounted to \$4.4 million in 1976. Since 1972 the Company has invested \$72.6 million in developing and expanding its refining capacity.

Denis Tremblay, a pumper at Montreal Refinery, draws a sample of the first North Sea crude oil to reach Canada. Originating in BP's Forties field, it arrived in October, by pipeline from Portland, Maine. Forties crude, containing only 0.3 per cent sulphur by weight, is especially suited to meet the Montreal market's demand for low-sulphur fuel oils.

Government continued to set domestic crude oil prices throughout the year. On July 1 prices were permitted to rise by \$1.05 to \$9.05 per barrel at Edmonton, and a further increase of \$0.70 per barrel was allowed to take effect on January 1, 1977.

Members of the Organization of Petroleum Exporting Countries (OPEC), however, increased their crude oil prices by up to 10 per cent on January 1, 1977. As a result, Canadian crude oil in central Canada is still some \$3.80 per barrel below the international price.

Importers of crude oil and petroleum products continued to be compensated by the Federal Government for that portion of the cost of the more-expensive offshore oil which they were not permitted to recover from the market.

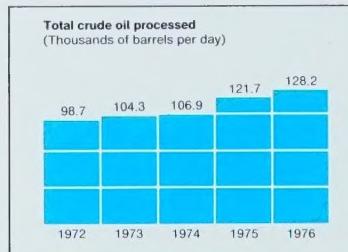
Throughput at the Company's refineries averaged a record 128,200 barrels per day. Trafalgar Refinery, which had been expanded to a nominal 78,000 barrels per day in 1975, has recently been operating as high as 85,000 barrels per day, following minor expenditure on debottlenecking.

In June, Montreal Refinery began to receive Canadian crude oil through the recently completed extension to the Interprovincial Pipeline system. By the end of 1976, deliveries through this extension to Montreal were running at some 250,000 barrels per day, of which BP Canada was obliged to take 24,000 barrels per day. Since the commissioning of the extension, the cost of shipment between Toronto and Montreal has been absorbed by the Federal Government pending settlement of the tariff by the National Energy Board. This has had the effect of maintaining the same price level for crude oil at both BP refineries but this situation may be changed in the course of the current year depending on the final



recommendations of the National Energy Board and other considerations.

At Montreal Refinery a new plant to separate liquid petroleum gases for sale as petrochemical feedstock was completed in December and new asphalt storage and loading facilities were completed early in 1977.



Marketing

INVESTMENT

In 1976 the Company invested \$15.9 million in marketing. Over the last five years BP has invested \$71.7 million in marketing facilities in Quebec and Ontario.



Olympic flags dress the façade of Jacques Turgeon's service station at Boucherville, Quebec, reflecting BP's support of the 1976 Games.

The Company completed in 1976 its major five year service station improvement programme, in the course of which the total number of outlets of all types throughout Quebec and Ontario was reduced from over 3000 to less than 1800. A growing proportion of sales is through selfserve stations, which BP introduced in 1971.

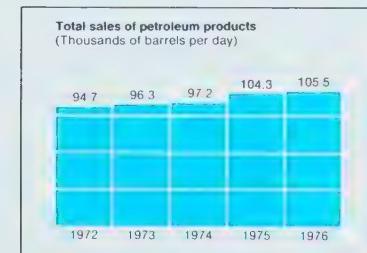
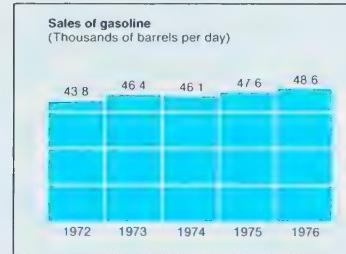
Unleaded gasoline, BP No-Lead, is now available at 75 per cent of the Company's outlets and this will rise to about 95 per cent by the end of the current year. In some 20 per cent of outlets, it will replace BP Super as sales of this high octane gasoline decline with the scrapping of older cars.

Most of BP's programme to rebuild and update its agency facilities was completed before the recent period of high inflation. However, many existing bulk plants have had to be modified to comply with new environmental legislation. The combination of escalating material and labour costs and meeting new environmental standards has resulted in the cost of a new bulk plant in 1976 being three times higher than five years earlier.

Continuing efforts have been made to control costs in the distribution network by consolidating bulk plants and agencies, by increasing the size of delivery vehicles and other innovations.

A major expansion and modernisation of the Company's asphalt plant at Montreal was completed in early 1977. The plant's capacity has been almost doubled and it is now one of the most up to date in the industry.

An affiliated company, Châtelaine Restaurants Limited, began operating two ice cream parlours in favourable downtown locations in Montreal and Toronto, under franchise from Swensen's Ice Cream Company of San Francisco; a third parlour is under construction in suburban Montreal. If these are as successful as expected, they will be the forerunners of a chain offering top quality ice cream specialities across Canada.



Corporate Affairs

INVESTMENT IN PEOPLE

The Company's investment in human resources goes far beyond the mere payment of salaries and wages to its employees. Not only does it provide employees with comprehensive benefits costing about 20 per cent of payroll, but it offers wide opportunities and financial assistance for training and further education. In addition, BP provides financial support to hundreds of community, regional and national organizations engaged in education, health, welfare and cultural endeavours. For the period 1972-1976, the total of all these expenditures was more than \$36 million.

During a joint government-industry oil spill protection exercise in the harbour at Hamilton, Ontario, environmental specialists ride the launch towing a BP-developed "Vikoma" boom belonging to the Canadian Coast Guard.

During the year the news media showed an increasing appreciation of the industry's problems and the implications of Canadian and world oil politics. BP and others in the industry laid particular emphasis on the immense investment and long lead time needed to find and develop new Canadian energy resources.

In preparation for the national adoption of the metric (SI) system, the Company participated actively in the drafting of industry conversion plans for the Metric Commission sectors covering exploration and production, and refining and marketing. Both plans were approved by the Commission and call for the industry to start using SI units in January 1979 and for completion of the conversion process by December 1980. This extended time frame will help to keep down the cost of conversion and allow implementation to proceed in an orderly manner.

In Quebec, BP continued to work towards meeting the provisions of The Official Language Act (Bill 22) and prepared to apply for the francisation certificate needed to do business with the government.

BP's corporate donations policies continued to emphasize support of cultural and educational endeavours. Four university scholarships were created, two each in Quebec and Ontario, to be awarded annually for five years.

Distribution of the new film catalogue stimulated demand for BP films. Audiences at some 20,000 showings totalled over 770,000. The co-sponsored film "Montreal, an Olympic City" drew a Canadian television audience estimated in the millions, when shown both on domestic stations and on United States channels received in Canada.

The Company supported the Ontario Government's Energy Conservation Week with internal and external publicity. At Toronto, the



Canadian première of the BP film "Energy in Perspective" was held for an audience representing business, government and the news media. Similar showings were held in early 1977 at Montreal and Calgary.

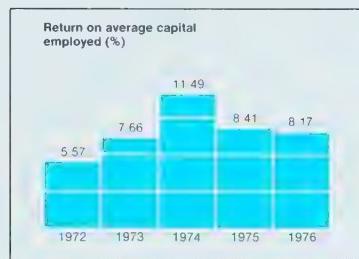
Environmental Protection

BP's efforts in all aspects of environmental protection continued to grow in importance through participation in local and national industry associations, through training programmes and through investment in improved methods.

At Montreal Refinery a new plant was put into operation to remove gaseous impurities from the refinery effluent water, and a biological pilot plant was installed to study methods of further improving water quality. Also at Montreal, following successful experimental work in 1975, installation began of a new light, compact type of floating roof with superior sealing capability. Fitted to a large number of storage tanks, these will substantially reduce the escape of hydrocarbon vapours into the atmosphere.

During its first full year of operation after the recent expansion, Trafalgar Refinery met all official environmental standards with only minor additional expenditure.

Financial Review and Financial Statements



Consolidated net income for 1976 was \$32.1 million or \$1.53 per common share, an increase of 5.4% from the comparative 1975 earnings of \$30.5 million.

The consolidated net income represents a rate of return on average capital employed of 8.2% compared to 8.4% in 1975.

Revenue from gross sales and services was up 13.7% to \$626.0 million compared to \$550.5 million in 1975.

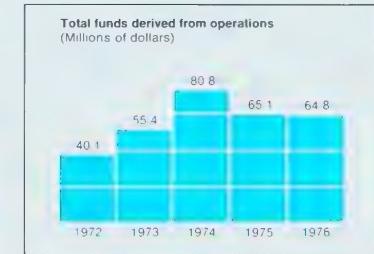
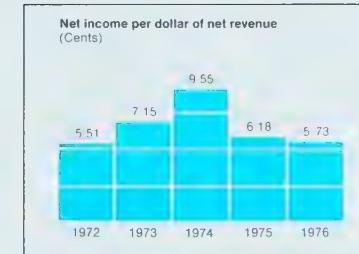
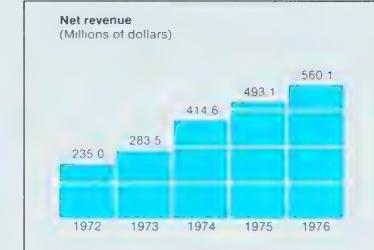
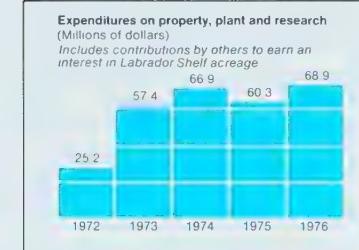
Consolidated net income for 1976, with comparative figures for 1975, was made up as follows:

	1976	1975
(millions of dollars)		
Exploration and production	\$ 23.1	\$ 13.8
Marketing and refining	9.0	16.7
	\$ 32.1	\$ 30.5

Expenses rose by 15.3% to \$506.0 million, reflecting higher costs of purchased crude oil, the impact of inflation on salaries, wages, benefits and materials, and higher charges for depreciation and depletion.

Federal sales, excise, municipal and other taxes, royalties and provision for income taxes totalled \$152.2 million, an increase of 34.6%. Provincial royalties increased by 31.6%. Direct taxes on petroleum products collected on behalf of provincial governments amounted to \$124.9 million, an increase of \$2.1 million over 1975.

Total expenditures in 1976 on property, plant and equipment and on research and mineral exploration were \$68.9 million, including \$4.6 million expended by others to earn an interest in the Company's acreage



on the Labrador Shelf. (See note 4 to the financial statements.) Comparable figures for 1975 were \$60.3 million, including \$13.7 million by others. A summary of expenditures is as follows:

	1976	1975
(millions of dollars)		
Exploration	\$ 22.2	\$ 29.3
Development	26.4	7.2
Marketing	15.9	16.5
Refining	4.4	7.3
	\$ 68.9	\$ 60.3

Current assets exclusive of cash and short term investments increased by \$31.0 million principally as a result of an increase in the value of inventories of \$29.2 million, while current liabilities increased by \$3.3 million. Cash and short term investments decreased by \$33.1 million with the result that net working capital declined by \$5.4 million to \$105.0 million.

Consolidated net income, restated on the basis of the guidelines proposed by the Accounting Research Committee of the Canadian Institute of Chartered Accountants to deal with accounting for the effects of changes in the general purchasing power of money was \$15.6 million or \$0.74 per common share. This compares to \$32.1 million or \$1.53 per common share reported on the basis of historical cost.

Similarly the return on average capital employed after restatement is computed at 3.3% as against 8.2% on an historical cost basis.

**Consolidated Statement
of Income**

(thousands of dollars)

for the year ended December 31, 1976

Revenue:

Gross sales and services (including crude oil sales from own production)	\$625,967	\$550,465
Less:		
Federal sales taxes	(29,133)	(25,276)
Crude oil sales from own production	(40,653)	(36,838)
Net sales and services	556,181	488,351
Income from investments	3,881	4,798
	<hr/>	<hr/>
	560,062	493,149

Expenses:

Purchases of crude oil, products and merchandise	332,776	277,837
Operating and administration	136,884	126,442
Depreciation	19,406	16,946
Depletion	9,299	7,980
Research and mineral exploration costs written off	1,817	3,149
Interest and discount on long term debt	5,768	6,515
	<hr/>	<hr/>
	505,950	438,869
Income before income taxes	54,112	54,280
Income taxes	22,000	23,800
Net income for the year	<hr/>	<hr/>
	\$ 32,112	\$ 30,480
Net income per common share (dollars)	<hr/>	<hr/>
	\$1.53	\$1.45

See accompanying notes

**Consolidated Statement
of Changes in Financial Position**
for the year ended December 31, 1976

(thousands of dollars)

Funds derived from:			
Net income for the year	\$ 32,112	\$ 30,480	
Add (deduct) items not resulting in a flow of funds in the current year:			
Depreciation and depletion	28,705	24,926	
Deferred income taxes	6,412	12,900	
Profit on redemption of long term debt	(843)	(478)	
Other	(1,591)	(2,768)	
Total funds derived from operations	64,795	65,060	
Proceeds on sale of property, plant and equipment	6,170	8,823	
Net decrease in investments and advances	579	4,238	
Issue of capital stock	—	26	
Long term borrowing	—	155	
Total funds derived	71,544	78,302	
Funds applied to:			
Expenditures for property, plant and equipment (note 2)	68,914	60,264	
Less:			
Contribution by others (note 4)	(4,550)	(13,657)	
Research and mineral exploration costs written off	(1,817)	(3,149)	
Total funds applied	62,547	43,458	
Repayments of long term debt	5,587	9,866	
Dividends	8,679	8,474	
Redemption of preference shares	99	39	
Total funds applied	76,912	61,837	
Increase (decrease) in working capital	(5,368)	16,465	
Working capital, beginning of the year	110,386	93,921	
Working capital, end of the year	\$105,018	\$110,386	

See accompanying notes

Consolidated Balance Sheet

December 31, 1976

Assets	(thousands of dollars)	
Current:		
Cash and short term investments, at cost which approximates market	\$ —	\$ 32,414
Accounts receivable (note 3)	100,311	98,941
Inventory, valued at the lower of cost and market	108,072	78,922
Prepaid expenses and deposits	2,290	1,806
Total current assets	210,673	212,083
 Investments and advances:		
Investments in other companies, at cost	3,428	4,292
Mortgages, loans and other assets	6,552	6,292
Total investments and advances	9,980	10,584
 Property, plant and equipment, at cost		
less accumulated depreciation and depletion (note 4)	359,547	329,833
\$580,200	\$552,500	

On behalf of the Board:

D. F. Mitchell, Director

M. Sauvé, Director

See accompanying notes

Liabilities and Shareholders' Equity	1976	1975
	(thousands of dollars)	
Current:		
Bank overdraft	\$ 624	\$ —
Notes payable	—	1,100
Accounts payable and accrued liabilities (note 5)	81,965	80,714
Income and other taxes payable	21,181	17,843
Dividends payable	811	741
Current maturities of long term debt	1,074	1,299
Total current liabilities	105,655	101,697
 Long term debt (note 6)	 78,449	 84,879
 Deferred income taxes	 63,000	 56,100
 Shareholders' equity:		
Capital stock (note 7)	185,200	185,361
Retained earnings	147,896	124,463
	333,096	309,824
	\$580,200	\$552,500

BP Canada Limited

1976

1975

**Consolidated Statement
of Retained Earnings**

for the year ended December 31, 1976

(thousands of dollars)

	1976	1975
Balance, beginning of the year	\$124,463	\$102,457
Net income for the year	32,112	30,480
	<hr/>	<hr/>
	156,575	132,937
 Dividends:		
Common shares	8,614	8,404
Preference shares	65	70
	<hr/>	<hr/>
	(8,679)	(8,474)
 Balance, end of the year	<hr/>	<hr/>
	\$147,896	\$124,463

See accompanying notes

Auditors' Report

To the Shareholders of BP Canada Limited:

We have examined the consolidated balance sheet of BP Canada Limited as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Canada,
March 1, 1977.

Clarkson, Gordon & Co.
Chartered Accountants

Notes to Consolidated Financial Statements

December 31, 1976

1. Accounting policies

The principal accounting policies are summarized below:

Investment in subsidiary companies

The consolidated financial statements include the accounts of subsidiary companies, all of which are wholly-owned. When a business is purchased, assets including goodwill and liabilities are recorded at their fair values at the date of acquisition and depreciation, depletion and amortization from that date are based on these values.

Property, plant and equipment; depreciation and depletion*Marketing, refining and production assets*

Property, plant and equipment includes the cost of land and facilities and of significant improvements thereto. Generally, depreciation is provided on assets on a straight line basis over their estimated useful lives which are as follows:

	Number of years		
	Refining	Marketing	Production
Buildings	30 to 50	10 to 20	
Tanks and pipelines	30	10 to 20	15
Equipment	20	10	4 to 12
Automotive equipment	5	5	5

Exploration and development costs

The full cost method of accounting is used, whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized, whether related to productive or non-productive properties. Proceeds received from the disposal of properties are credited against the costs, and the net costs, except as noted below, are amortized by the composite unit of production method based on total estimated proven reserves. Separate cost centres have been established for the Arctic and East Coast offshore activities and costs accumulated in these cost centres are amortized on a straight line basis over the period during which industry activity in each area is expected to continue, presently estimated to be until 1984.

Costs related to mineral exploration, excluding property acquisition costs which are amortized over the terms of the related leases, are charged to income in the year incurred.

Research costs

In 1976, the Company established a field project to produce heavy oil from the Company's deposits in Alberta, the capital cost of which is to be amortized on a straight line basis over the project's planned ten year life. Other research costs are charged to income in the year incurred.

Inventories

Inventories of crude oil, refined products and merchandise are valued at the lower of cost (determined on a first-in first-out basis, which for manufactured refined products is based on the average cost of manufacture for the year) and net realizable value.

Sales and services

Sales and road taxes collected for the provincial governments have been excluded from sales and services revenue.

The Company purchases large volumes of crude oil from other producers, and sells to other companies in the oil industry whatever of its own net production and purchases is not required for its own refineries. The Company's practice is to apply crude oil sales to reduce crude oil purchases and thus exclude such transactions from both net sales and services and costs. The income statement, however, shows the Company's own production of crude oil at market value as a deduction from gross sales and services.

Income taxes

The Company provides for income taxes on the tax allocation basis of accounting under which the provision for income taxes is computed on the basis of income reported in the financial statements rather than that reported in the Companies' tax returns. Taxes provided on income deferred for tax purposes by claiming deductions greater than the related charges in the accounts are reflected as deferred income taxes in the consolidated balance sheet.

Oil import compensation program

Under the oil import compensation program the federal government agreed, effective January 1, 1974, to compensate eligible importers for certain cost increases with respect to imported crude oil for the manufacture of petroleum products consumed in Canada, provided the importing company maintained prices for such products at the level suggested by the government. Compensation received or recoverable under this program is reflected as a reduction of the cost of purchased crude oil.

2. Acquisition of British Columbia Oil Lands Limited

During the year the Company purchased for cash the remaining 65.25% of British Columbia Oil Lands Limited which it had not previously owned, increasing its investment from \$792,000 to \$13,310,000.

As a result of the additional \$12,518,000 invested during the year (which, after deducting the increase in consolidated working capital at September 1, 1976 is substantially included in expenditures for property, plant and equipment in the consolidated statement of changes in financial position), the Company has assigned costs to oil and natural gas rights and production assets of \$11,090,000, working capital of \$1,746,000 and deferred income taxes of \$318,000.

British Columbia Oil Lands Limited is engaged in the exploration for and the production of petroleum and natural gas.

The acquisition has been accounted for by the purchase method and the results of British Columbia Oil Lands Limited have been included in the consolidated statement of income from September 1, 1976.

3. Accounts receivable

	1976	1975
	(thousands of dollars)	
Trade accounts receivable	\$ 95,691	\$84,285
Recoverable under oil import compensation program	4,620	14,656
	<u>\$100,311</u>	<u>\$98,941</u>

4. Property, plant and equipment

	1976	1975		
	Investment at cost	Accumulated depreciation and depletion	Net investment	Net investment
		(thousands of dollars)		
Exploration and production	\$282,581	\$122,615*	\$159,966	\$129,815
Refining	174,040	75,205	98,835	101,929
Marketing	163,803	63,057	100,746	98,089
	<u>\$620,424</u>	<u>\$260,877</u>	<u>\$359,547</u>	<u>\$329,833</u>

*Includes depletion of \$94,672,000

Two companies have agreed to contribute an aggregate of \$38,000,000 for an exploration programme on the Company's acreage off the coast of Newfoundland to earn 55% of the Company's interest in that acreage. One of the companies has fulfilled its commitment of \$25,000,000 and the other has contributed \$4,550,000 out of a total of \$13,000,000.

Expenditures incurred subsequent to fulfillment of the companies' respective contributions will be shared with the Company in proportion to the respective interests in the lands.

5. Accounts payable and accrued liabilities

	1976	1975
	(thousands of dollars)	
Accounts payable trade and accrued liabilities	\$71,986	\$52,957
Due to affiliated companies for purchases of crude and product	8,464	19,391
Due to parent company — dividend	1,515	1,377
— other	—	6,989
	<u>\$81,965</u>	<u>\$80,714</u>

6. Long term debt

	1976	1975
	(thousands of dollars)	
BP Canada Limited:		
6% Sterling loan maturing in 1983 (\$4,377,000 at 1976 year end exchange rates)	\$ 6,336	\$ 7,311
7½% U.S. dollar Series A debentures, maturing February 15, 1993 (\$24,171,000 at 1976 year end exchange rates)	23,898	24,894
8¼% Series B debentures, maturing February 15, 1993	23,500	25,000
Other long term debt	150	
Subsidiaries of BP Canada Limited:		
BP Oil Limited —		
5½% first mortgage sinking fund bonds Series A, maturing March 15, 1979	4,052	5,695
5¾% sinking fund debentures Series A maturing October 1, 1986	21,316	22,222
Mortgage loans payable	289	463
Other	132	443
	<u>79,523</u>	<u>86,178</u>
Less current maturities included in current liabilities	1,074	1,299
	<u>\$78,449</u>	<u>\$84,879</u>

Repayment and sinking fund requirements during the four years subsequent to December 31, 1977 are as follows:

1978 — \$3,371,000	1980 — \$5,002,000
1979 — \$8,312,000	1981 — \$4,995,000

7. Capital stock

	1976	1975
	(thousands of dollars)	
Authorized:		
12,185 5% cumulative redeemable sinking fund preference shares of \$100 par value each redeemable for \$103 or at par for sinking fund purposes (13,795 in 1975)		
30,000,000 common shares without par value		
Issued:		
12,185 5% cumulative redeemable sinking fund preference shares (13,795 in 1975)	\$ 1,219	\$ 1,380
21,011,023.8 common shares	<u>183,981</u>	<u>183,981</u>
	<u>\$185,200</u>	<u>\$185,361</u>

At December 31, 1976 options were outstanding to officers and employees to purchase 302,000 common shares at a price of \$11.47½ exercisable annually to June 9, 1980. No options were exercised during the year. The Company redeemed for cash 1,610 preference shares during the year.

8. Pension plans

Based on the latest actuarial valuation of the pension plans as at December 31, 1975 and the payment in 1976 of the indicated experience deficiency, all liabilities were fully funded by assets held by the trustees.

9. Commitments and subsequent events

In January 1977, the Company and BP Canadian Holdings Limited agreed to purchase certain interests in coal licenses in British Columbia. BP Canadian Holdings Limited, which owns 65.5% of the issued common shares of BP Canada Limited, is a wholly-owned Canadian subsidiary of The British Petroleum Company Limited. The purchase is conditional upon receipt of all necessary governmental and regulatory approvals. The purchase price is \$30,000,000, of which \$25,000,000 is payable on closing, and the balance upon completion of certain railroad and port facilities to be installed by other parties.

The relative interests of the two companies in the project will not be determined until all necessary approvals have been obtained. If the properties are acquired it is the present intention to develop a mine which could involve substantial future capital expenditures.

Total rentals under leases expiring more than three years after the year end amounted to approximately \$28,000,000 of which \$2,700,000 is payable in 1977.

10. Other statutory information

The aggregate direct remuneration of the directors and senior officers of the Company was \$839,000 in 1976.

The principal operating subsidiaries of the Company are BP Oil Limited and BP Exploration Canada Limited.

11. Anti-inflation program

Under the Anti-inflation legislation which is presently scheduled to be in force until December 31, 1978 the Company is required to comply with controls on prices, profit margins (other than those in respect of crude oil and natural gas which are controlled under the Petroleum Administration Act), employee compensation and dividends.

12. Statement presentation

The 1975 comparative figures have been adjusted to conform to the presentation adopted in the current year.

Five year financial summary(Dollars in thousands except
per share amounts)

Balance sheet	1976	1975	1974	1973	1972
Current assets	\$210,673	\$212,083	\$222,723	\$113,006	\$ 83,196
Current liabilities	105,655	101,697	128,802	61,303	54,796
Working capital	105,018	110,386	93,921	51,703	28,400
Investments and advances	9,980	10,584	15,206	36,385	12,252
Property, plant and equipment—net	359,547	329,833	316,994	291,392	263,326
Capital employed	474,545	450,803	426,121	379,480	303,978
Deduct: Long term debt	78,449	84,879	95,068	103,818	57,650
Deferred income taxes	63,000	56,100	43,200	21,400	8,800
Shareholders' equity	333,096	309,824	287,853	254,262	237,528
Per common share	\$15.80	\$14.68	\$13.63	\$12.03	\$11.24
Income					
Net revenue	560,062	493,149	414,550	283,475	235,049
Expenses	505,950	438,869	343,576	249,731	213,214
Income before income taxes and extraordinary items	54,112	54,280	70,974	33,744	21,835
Income taxes	22,000	23,800	31,400	12,800	8,300
Income before extraordinary items	32,112	30,480	39,574	20,944	13,535
Extraordinary items	—	—	—	(684)	(576)
Net income for the year	\$ 32,112	\$ 30,480	\$ 39,574	\$ 20,260	\$ 12,959
Per common share					
Income before extraordinary items	\$1.53	\$1.45	\$1.88	\$0.99	\$0.64
Extraordinary items	—	—	—	(.03)	(.03)
Net income for the year	\$1.53	\$1.45	\$1.88	\$0.96	\$0.61
Total funds derived from operations	\$ 64,795	\$ 65,060	\$ 80,834	\$ 55,448	\$ 40,070

Five year operating summary(Barrels per calendar day except
natural gas)

Refined product sales	105,529	104,310	97,164	96,253	94,680
Crude oil processed at refineries	128,246	121,693	106,921	104,323	98,743
Gross sales of crude oil and natural gas liquids	21,349	22,827	28,492	32,037	28,418
Gross sales of natural gas (thousands of cubic feet per day)	104,926	100,945	101,043	102,167	97,274

Board of Directors

- R. W. Adam** — London, England
A Managing Director,
The British Petroleum Company Limited
- Sir Eric Drake, C.B.E.** — London, England
- R. M. Fowler, O.C., LL.D.** — Montreal
President, C.D. Howe Research Institute
- R. W. D. Hanbidge** — Montreal
Executive Vice-President
BP Canada Limited
- W. A. L. Manson** — London, England
Director,
BP Trading Limited
- F. A. McKinnon, D.U.C.** — Calgary
Senior Vice-President,
BP Canada Limited
- I. N. McKinnon, M.B.E., LL.D.** — Calgary
Chairman of the Board,
Consolidated Pipe Lines Company
(Decased December 23, 1976)
- D. F. Mitchell** — Montreal
President,
BP Canada Limited
- M. M. Pennell, C.B.E.** — London, England
Deputy Chairman and a Managing Director,
The British Petroleum Company Limited
- Charles Perrault** — Montreal
President,
Perconsult Limitée
(Elected a Director January 27, 1977)
- The Hon. M. Sauvé, P.C.** — Montreal
Vice-President, Administration,
Consolidated-Bathurst Limited
- G. Meredith Smith** — Montreal
- J. Allyn Taylor** — London, Ontario
Chairman of the Board,
Canada Trust

Officers

- R. M. Fowler, O.C., LL.D.,**
Chairman of the Board
- D. F. Mitchell,**
President
- R. W. D. Hanbidge,**
Executive Vice-President
- F. A. McKinnon, D.U.C.,**
Senior Vice-President
- J. A. Barclay,**
Vice-President, Supply and Refining
- E. W. Best,**
Vice-President, Exploration and Production
- D. A. Deverell,**
Vice-President, Marketing
- J. Langelier, Q.C.,**
Vice-President, Legal, and Secretary
- R. W. Mitchell, M.B.E., Q.C.,**
Vice-President, Ontario
(Retired January 1, 1977)
- D. C. Smith,**
Vice-President, Finance, and Treasurer
- K. Healy,**
Assistant Secretary
- J. I. Rawlinson,**
Assistant Secretary
- K. T. Allison,**
Assistant Treasurer
- F. D. Pynn,**
Assistant Treasurer

Executive Office
1245 Sherbrooke Street West
Montreal, Quebec H3G 1G7

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335 - 8th Avenue S.W.
Calgary, Alberta T2P 1C9

BP House
240 Duncan Mill Road
Don Mills, Ontario M3B 3B2

Refineries
Montreal Refinery
Ville d'Anjou, Quebec

Trafalgar Refinery
Oakville, Ontario

Sales Offices
Province of Quebec
Montreal
Quebec City
Sherbrooke
Province of Ontario
Barrie
Burlington
Chatham
Hamilton
Kitchener
London
North Bay
Ottawa
Toronto

Transfer Agent and Registrar
The Canada Trust Company
Montreal, Toronto, Calgary, Vancouver

Stock Exchange Listings
Montreal, Toronto, Vancouver

BP Canada

